

Inclusionary Zoning and Assisted Ownership in Queenstown Lakes

> *Julie Scott from Queenstown Lakes Community Housing Trust shares her organisation's prototype for combatting a rapidly burgeoning problem in affordable housing – Inclusionary Zoning (IZ) and a many-pronged assisted ownership programme.*

Queenstown is not the first place that springs to mind when you think of affordable housing – and rightly so, with the median sale price well over \$1 million, and the average rent for a three-bed house starting at \$750 per week.

But this problem is not new to us and, in 2007, the Queenstown Lakes District Council recognised an issue in the lack of affordable housing and acted upon it by initiating the formation of the Queenstown Lakes Community Housing Trust (QLCHT). Our Trust is an independent, not-for-profit organisation, which still maintains a strong relationship with Council given we work together on our shared goal of creating decent, secure and affordable housing for our community.

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Appropriate accommodation promotes the wellbeing of both the community and the individual. We believe it is essential to maintain a strong and stable workforce, along with a vibrant and diverse community, and, consequently, we are continually working towards finding a range of solutions to the housing issue faced by residents of the Queenstown Lakes District.

We operate somewhat broadly across the housing continuum,

having assisted 130 households into our assisted ownership programmes, 10 into a rent-to-buy scheme and 34 into affordable rental properties, including senior housing.

Today, QLCHT has over 600 households on its waiting list. These are modest-income workers with permanent residency or citizenship who are committed to the District. They meet all our basic eligibility criteria for assistance and are aspiring to put down roots here. Fifty-six percent are families with kids, 17 percent are couples with no kids and the remaining 27 percent are single-person households.

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QLCHT has one very unique point of difference from most other CHPs around the country, and that is the benefit of a special process called Inclusionary Zoning (IZ). This term refers to town planning rules that require a portion of new land development to be retained as affordable housing for people on low-to-moderate incomes. The theory behind IZ is, when land is up-zoned (e.g. from rural to residential), it creates a huge uplift in value known as the ‘planning gain’, and that the community should share in the benefit of that uplift.

Our local council instigated its first IZ agreement with a land developer over 15 years ago. That resulted in a cash payment of over \$5 million, which enabled us to buy a large piece of land and build our first comprehensive development in an affordable subdivision of Queenstown, Lake Hayes Estate.



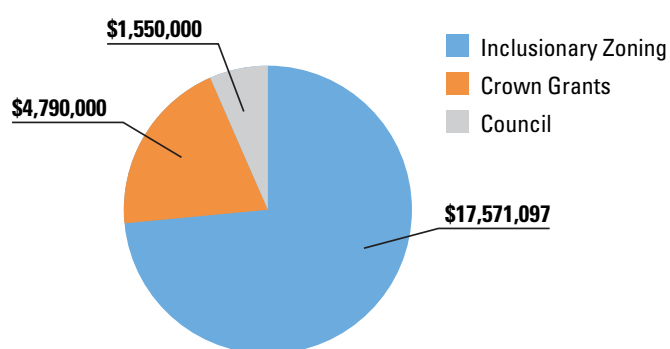
Queenstown



Six new homes piloting the launch of the Secure Home programme in Shotover Country in February 2019

Subsequent agreements have delivered further funds of more than \$12 million to QLCHT, which in turn have enabled us to provide housing for 174 households in total. Sometimes contributions come to us in the form of land and, other times, it's cash. Where it's appropriate, we try to build on the land we receive. This supports the developer's new subdivision, and encourages pepper-potting of homes around the district. We try our best to work with the developer to find a satisfactory outcome for all parties.

Following is a summary of QLCHT's funding stream over the past 12 years, which demonstrates the huge role IZ has played in our development.



Although IZ is not commonplace in New Zealand, it is widespread in other major housing hotspots around the world including London, Whistler, Aspen and many parts of Australia and the United States. It would certainly be exciting to see central Government bring in legislation to make it easier for other councils to adopt the practice of IZ in their respective districts. This was a common thread of discussion at our national conference, The Shift Aotearoa, held in Wellington recently. Our sector is crying out for Government support to facilitate the implementation of IZ.

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Over the last three years, we've seen a huge increase in people seeking the Trust's assistance. Infrastructure has failed to keep up with population growth with more workers pouring into town to staff the numerous new businesses and a booming local economy.

However, we now have a dedicated council determined to strengthen our town's infrastructure to satisfy resident and visitor growth. No longer are people coming to us just seeking help to buy their first home. Now more than half our waiting list comprises people looking for affordable and secure rental accommodation and, in response to this, we have adjusted our operations to meet this demand accordingly.

When we first launched back in 2007, we were very much focussed on our assisted ownership programme where QLCHT acted as a silent partner in the property, and was registered on the title owning anywhere between 15 and 40 percent. This worked well for around eight years when entry level pricing was never greater than \$500,000.

Typically, QLCHT would own 30 percent and the household would own around 70 percent, with the goal of buying us out over time. However, when property prices skyrocketed in 2016 and entry level housing was suddenly starting at \$800,000, the model was no longer sustainable. Most households were unable to afford the majority share.

We experienced some negative stakeholder reaction when a small number of households sold their average 70 percent share of the home at a time when the Queenstown market had appreciated substantially, providing them with significant capital gain on their share of the home. While QLCHT also received significant gain on its share, which was reinvested

into delivering new affordable homes, we agreed with those stakeholders. The model has now evolved to one where a full sale of the home is no longer possible, and where the gain to the household is capped, so the Trust can serve more of the households on our growing waiting list.

“ Under Secure Home, the household buys the leasehold property at the actual cost of construction, excluding land ”

The notion of QLCHT holding the value of the IZ contributions in perpetuity was identified as a key factor going forward. So it was agreed it was time to evolve the assisted ownership model into a more sustainable paradigm with the following objectives:

- A fairer opportunity for all households;
- Housing to remain affordable indefinitely;
- Land to be held in QLCHT ownership in perpetuity;
- The ability for QLCHT to obtain a small return on the land.

With the situation in the district becoming dire in 2017, the Mayor set up a Housing Affordability Taskforce, of which I was a member. Out of this taskforce was born the genesis of our new Secure Home programme – a long-term ownership model, based on a leasehold structure.

Under Secure Home, the household buys the leasehold property at the actual cost of construction, excluding land. They then sign up to a 100-year lease with ground rent set at 1.5 percent of market value. This rent is adjusted annually with CPI for the term of their lease.

When they want to sell their Secure Home property, they must sell back to QLCHT at the original price, plus CPI for the period they have been in the property. Any agreed improvements they have made during that time are also factored into the resale price. A clause within the agreement makes a provision for ensuring the household maintains the property to a reasonable standard, therefore protecting QLCHT's long-term asset.

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When QLCHT buys a property back, we sell it to the next household on our waiting list at the same price we bought it back for, and with a new 100-year lease put in place. Affordability is maintained in perpetuity for the first, as well as subsequent, households.

Linking the cost of the home and the ongoing ground rent to inflation, rather than market land values, creates a secondary market – one controlled by our not-for-profit Trust and not subject to the volatility of the open market. It gives the households certainty of their outgoings and provides a stepping stone to independence over time.

Following is a model of how Secure Home compares to renting a three-bedroom house in Queenstown:

3 Bed Pilot House at Shotover Country – \$350k to build:			
Mortgage	\$280,000		
Deposit	\$70,000		
Upfront purchase price	\$350,000		
		<i>Annual</i>	<i>Weekly</i>
Mortgage repayments*	\$19,642		\$378
Rates, insurance and maintenance	\$5,200		\$100
Ground rent (1.5% on \$300k section)	\$4,500		\$86
TOTAL	\$29,342		\$564
\$564 weekly compared to median rent of \$750 for 3 bed			
SECURE HOME vs RENT = NO BRAINER!			
<i>*Repayments on a \$280k mortgage over 25 years term @ 5%</i>			

Secure Home was launched earlier this year, and QLCHT continues to run other programmes alongside it. These programmes include:

Rent Saver – providing secure tenure for households, along with an inbuilt savings incentive so, over five years, the household will have saved a sufficient deposit to allow them to transition into the Secure Home programme, while ideally remaining in the same home.

Affordable Rental – geared at low income households with no deposit that offers set rent, based on the household's income. Leases are for a maximum of five years during which time the household is expected to clear themselves of debt and establish savings to progress towards Rent Saver or Secure Home.

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Our Trust has set the big, audacious goal of 1,000 homes over 10 years. Our local council has adopted the same goal and, together, we are working hard to achieve it.

Through IZ, we see a pipeline of around 500 homes during that period, and the balance will come through our own projects and partnerships with outside parties. We envisage around 60 percent will come through Secure Home and the remaining 40 percent will be rentals. Our senior rental housing is expected to increase too, as demand grows with a shift in population demographics.

For me, helping people into affordable and secure housing through one of our programmes is incredibly rewarding. Seeing a local household in their new home is a hugely satisfying part of the job and brings me back to the core reason why we are here.



Julie Scott is Executive Officer of the Queenstown Lakes Community Housing Trust.